

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3638
ANSWERED ON:25.08.2006
COMPOUND INTEREST ON AGRICUTURAL LOAN
Ahir Shri Hansraj Gangaram

Will the Minister of FINANCE be pleased to state:

- (a) whether the Supreme Court of India have given any verdict that compound interest can not be charged on the agricultural loan;
- (b) if so, whethcl the Government is aware that the banks are charging compound interest on the agricultura110an despite the said verdict;
- (c) whether the Government has taken any action against the banks for charging compound interest; and
- (d) if so, the detalls thereof ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)to(d) : Supreme Court in its judgement delivered on 20 June 1994 J;letd inter-alia, that allowing the: banks to charge interest on quarterly or half yearly rests from farmers would tcLltamOunt to virtually compelling them to pay compound interest since they would not be able to pay the interest except once in a year i.e. when they receive the income from sale proceeds of their crops and that so far as loans for agricultural purposes are concerned, at best interest may be charged with yearly rests and may be compounded, if the loan/installment becomf:s overdue.

The Reserve Bank of India (RBI) advised the banks that they should charge interest on agricultural advances at annual rests instead of quarterly or longer rests, and can compound the interest, if the loan/installment becomes overdue. It was clarified that these instructions would apply to long duration crops only.As regards other agricultural advances in respect of short duration crops and allied activities, banks are required to take into consideration due dates fixed on the basis of cash flows of borrowers and harvesting/ marketing season while charging interest and compound the same if the loan/installment becomes overdue.

RBI in March 2006, has further, advised, Indian Banks Association(IBA) and National Bank for Agriculture and Rural Development (NABARD) to reiterate the instructions issued in the matter to their member banks and Co-operative banks and Regional Rural Banks(RRBs) respectively conveying them to reverse the interest charged, if any, in contravention of the instructions. RBI has advised NABARD and IBA to advise the banks that any lapse in this regard noticed during audit/inspection of the banks, would be viewed seriously and penalty may be mlposed for such lapses.